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C O N F I D E N T I A L BAGHDAD 003426

SIPDIS

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TAGS: PGOV KDEM PREL IZ

SUBJECT: AUGUST 20 MORNING UPDATE ON CONSTITUTIONAL DRAFTING

REF: BAGHDAD 3424

Classified By: DCM David M. Satterfield for reasons 1.4 (b) and (d)

¶1. (C) As noted in reftel, the key issue remaining for Shia-Kurd resolution is management of oil/gas resources and handling of associated revenues. Morning of August 20, Ambassador Khalilzad presented revised language to SCIRI leader Hakim, who then reviewed the text with UIA leadership. VP Abdel Mehdi subsequently informed Ambassador of UIA agreement on the following text:

"Natural resources are the property of all the people of Iraq in all regions and governorates.

The federal government with the producing governorates and regional governments shall undertake the management of oil and gas extracted from current fields and distribute the income in a fair manner in proportion to the population distribution in all parts of the country with a set allotment in a set time for damaged regions that were deprived in a biased manner by the former regime - and in a way that assures balanced development in different areas of the country, and this will be stipulated by law.

The federal government with the regional and governorates governments shall draft the necessary strategic policy to develop oil and gas in a way that achieves the highest interests of the Iraqi people based upon the best market principles and to encourage investment."

Ambassador is now with KDP leader Barzani to review the above language and seek concurrence.

¶2. (C) Next steps: Obtaining Shia-Kurd closure on the resources issue is essential to moving forward on closing the entire constitution text. If Barzani balks, we believe the moment will have arrived for maximum and immediate Washington pressure to be brought to bear upon him. If he concurs on the closing issue, then we will move ahead today on editing the full constitution text - a procedure agreed to by Hakim. Khalilzad